

INFORMATION PLANNING FOR POLICY REFORM PROGRAMS

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SUMMARY

The Agency for International Development (AID) has recently initiated a number of policy reform programs and more are likely in the coming years. Like other modes of development assistance, adequate information about program implementation and the effects of reform measures is critical for sound program management. Therefore, an information component should be an integral part of policy reform programs.

This paper is intended for two main users: (1) AID and host country staff responsible for designing or managing a policy reform program and (2) specialists who have limited experience with planning information systems for reform programs. The guidance focuses on the common categories of information needed by most policy reform programs. Two ongoing policy reform programs -- the Agriculture Sector Development Grant in Niger, and the Economic Policy Reform Program in Mali -- provide examples of the types of data required for program monitoring and evaluation and the range of methods that can be used to collect these data.

The principal information requirements of these programs are as follows:

- Compliance Data. Central to program implementation are data which demonstrate host country compliance with the conditions for disbursement. A range of data can be used for this purpose. Qualitative data describing changes in organizations and processes are often sufficient. Quantitative measures, such as budgetary data or operational statistics, also can be used to track compliance. A checklist consisting of the reforms to be made, the date when action is taken, and supporting evidence of actual implementation is a simple means for monitoring compliance. For the most part, the information requirements for compliance are contained in the program agreement.
- Performance of Public Sector Institutions. Policy reforms are often intended to improve the performance of public sector institutions. As reform measures are enacted, data are needed to monitor improvements in performance. Data collection should concentrate on readily observable changes in government institutions which result directly from the reforms, rather than on more global measures of public sector performance. Operational records and statistics will be very useful in this regard.

- Program Implementation and Context. Joint review committees involving host country and USAID representatives are established to assess implementation progress and the short-term effects of reform measures. The committees meet prior to the release of program funds to determine whether conditions for disbursement have been satisfied. Compliance data and institutional performance data are necessary for these reviews. An important consideration in assessing progress is the economic and political context in which the program is being implemented. Changes in these conditions during the course of the program can significantly affect the implementation of reforms and their effects. Data which monitor contextual factors, therefore, are needed to determine whether mid-course adjustments to the program are required to expedite program implementation.
- Policy Reform Impact and Private Sector Response. The objectives of many policy reform programs include reducing government control over market operations, decreasing the operating costs of public sector institutions, lowering government expenditures while increasing public sector efficiency, and stimulating private sector development. Therefore, in addition to the categories of data cited above, information is also needed on the private sector's response to reform measures. This often requires conducting special evaluation studies during the latter stage of the reform program. A broad range of studies varying in complexity according to program resources and other constraints may be necessary. In general, the studies should examine whether the business community has reacted to the reform program as expected, and the likely effects of the reform measures on private sector growth. These studies can also generate information for planning subsequent programs to stimulate private sector development.

After discussing the types of information needed for program monitoring and evaluation, several suggestions are made concerning the scope of the information system. It is important to determine precisely what the monitoring and evaluation responsibilities of the program include and exclude. Management's demand for information has to be accommodated to the available human and financial resources of the program and other constraints to data collection and analysis. Several characteristics of policy reform programs help delimit their information requirements. First, the conditions for disbursement define basic data needs for program monitoring and evaluation. Second, the degree to which program funds are restricted to specific uses by the host country influences the scope of information requirements; that is, information requirements increase as the use of funds becomes more specific. Third, the difficulty of empirically demonstrating the effect of policy reforms on macroeconomic and sectoral conditions will, in many programs,

preclude this as a viable strategy for evaluations.

Several recommendations are made concerning staffing and funding for the information component.

1. INTRODUCTION

1.1 Purpose of the Report

Summary: This report provides guidance on planning the information component of policy reform programs. It is intended for Agency for International Development (AID) and host country staff involved with the design and management of policy reform programs and focuses on the types of information required for program monitoring and evaluation.

AID has long supported policy reform measures through its economic assistance programs. Typically such reform activities were included in the conditions precedent or covenants of development projects and, more commonly, in program assistance, such as a Commodity Import Program. Recently, however, AID has initiated a number of programs which provide direct funding for policy reforms, and more are being planned. In large part, these programs are responding to the severe economic difficulties, such as depressed commodity prices, debt servicing, and balance of payment problems, faced by many developing countries. Substantial cash transfers are necessary to cope with these urgent economic problems, and modes of assistance are required which permit rapid disbursement of funds. Project assistance is largely inadequate for this purpose. {1} Policy reform programs, on the other hand, combine a cash-transfer mechanism with the means for rectifying fundamental policy constraints which have contributed to the country's economic problems. The economic straits many countries are now in also create an environment in which governments are more willing to accept the need for policy reforms and take remedial action, especially if economic assistance is tied to enacting reform measures.

As with any other type of development assistance, adequate information is critical for sound planning and management of policy reform programs. The types of data needed for economic and policy analyses during the initial design of the program depend largely on the particular reforms to be made, current economic conditions, and other context-specific factors. For program implementation, however, managers will require several common types of information to monitor and evaluate program performance and effects. Therefore, this report provides guidance on planning the information component of reform what the information requirements of the program will be during the initial design stage to estimate funding and staffing needs. The guidance should help clarify which data to collect, how to

collect them, and who is responsible for managing and analyzing data for program monitoring and evaluation prior to implementation. This information plan should, in turn, be useful for establishing the work plan of the program management unit or for writing the terms of reference for technical advisers.

1.2 Categories of Information Common to Policy Reform Programs

Summary: Most policy reform programs require four major categories of information for monitoring and evaluating program performance and effects: (1) compliance with conditions for disbursement, (2) institutional performance, (3) progress in implementation, and (4) effects on the private sector.

As with other types of economic assistance, the specific content of AID's policy reform programs is tailored to the particular needs and circumstance of each host country. This suggests that policy reform programs vary widely. Indeed, even within the same sector, the set of reforms and changes each program supports can differ significantly. However, because these programs share the overarching policy objectives supported by AID and similar program designs and management requirements, they usually have comparable information requirements for monitoring and evaluation. For example, the Agriculture Sector Development Grant in Niger (ASDG/Niger) deals with commodity pricing, input supply, cross-border trade, and parastatal operations. The Economic Policy Reform Program in Mali (EPRP/Mali) supports various public administration reforms in taxation, private sector regulation, and the civil service system. Even though their specific policy reforms are quite different, both these programs share a common goal: to encourage private sector development by reducing the size and role of the public sector in the national economy. Moreover, changes in the operations of public sector institutions (e.g., ministry offices, parastatals) to improve their performance are part of the reform packages supported by both programs. In short, the specific reforms of policy programs in agriculture, public administration, and other sectors will differ, but the major goals of the programs are often comparable.

Reform measures to improve public sector performance and to reduce government involvement in the economy while encouraging private sector development constitute two major categories of information most reform programs will require. First, data will typically be needed to show changes in the performance of public institutions. Second, data on the private sector's response to reform measures, or the effects of the reforms on the private sector, will be necessary for many of AID's programs.

Making the release of funds conditional on the host country's compliance with performance criteria is fundamental to the design of policy reform programs. This performance disbursement design leads to two additional information requirements for

program management. First, data demonstrating compliance with conditions for disbursement are needed by the program's joint review committee prior to the release of each tranche. This means that compliance data will be required on an annual or semi-annual basis. Data showing compliance with disbursement conditions, however, should be largely derived from the ongoing monitoring of program implementation. On a frequent basis, the program management unit should be developing documentation on progress toward implementing the various subactivities which constitute a reform measure (e.g., proposals for procedural changes, reviews, formal approval, enactment of changes). Monitoring of program implementation should also take into account changes in economic, political, or social conditions which impede or facilitate enactment of reform measures. In short, program files documenting the implementation process provide important source of compliance data and thus of information for external evaluations.

In summary, because of similarities in the objectives and design of AID's policy reform programs, these programs provide four main types of information for program monitoring and evaluation: compliance with conditions for disbursement, improvement of the performance of public sector institutions, implementation progress, and private sector response to policy reforms.

1.3 Organization of the Report

Because the information requirements for policy reform programs result in part from program design, a brief description of the basic model that AID follows is presented in Section 2. The main categories of information needed for these programs are discussed in Section 3. Delimiting the information requirements for policy reform programs is discussed in Section 4. To illustrate the types of information needed for program monitoring and evaluation, examples are provided from the information plans for the Agriculture Sector Development Grant in Niger and the Economic Policy Reform Program in Mali.

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1 Dubey, "Policy Based Lending and the World Bank." Paper presented at the Fifth Agriculture Sector Symposium, 1985.

2. POLICY REFORM VIA THE PERFORMANCE DISBURSEMENT MODEL

Summary: Performance disbursement refers to the conditional release of funds used in AID's policy reform programs. Funds are divided into a series of tranches which are disbursed when the host country has complied with conditions established at the outset of the program (conditions precedent). Compliance typically consists of enacting reform measures and making related institutional changes.

AID's policy reform programs are designed on the basis of performance disbursement. {2} Under a performance disbursement arrangement, policy reforms and associated institutional changes are divided into an annual series of actions intended to lead gradually to program objectives (e.g., reducing subsidies to an acceptable level, reorganizing a parastatal). Corresponding to the measures that the host country is to enact each year, program funding is divided into tranches which are released when the conditions (i.e., the annual reform measures) are met. In this way, policy and institutional reforms are made gradually over the course of the program while funding is disbursed periodically, contingent on adequate performance by the host country.

Monitoring progress toward meeting the conditions for disbursement is a key management function for policy reform programs. In this regard, the conditions for disbursement constitute benchmarks which track program implementation and progress toward policy reform objectives. Periodic joint assessments involving AID and the host country determine whether the conditions of the performance disbursement agreement have been met or whether progress has been satisfactory under unpredicted adverse conditions to warrant the release of the next tranche. These funds are then used for purposes mutually acceptable to AID and host country, although not necessarily for activities related exclusively to the policy and institutional changes the program supports.

It is important to recognize that the mechanism for the release of funds in performance disbursement programs is the satisfactory implementation of policy reforms or institutional changes. Continued funding is not contingent on attaining the hypothesized improvements in the sector or national economy that were expected to result from the reforms. For example, when AID and the host country mutually accept the need for agricultural policy changes to encourage sector development, the disbursement of funds is tied to the enactment of reform measures. Subsequent tranches are released as the next set of conditions for disbursement are met by the host country. The anticipated impact of those changes (e.g., private sector growth, increased production and farmer income) does not have to be demonstrated for continued funding. What AID funds are "purchasing" via performance disbursement is, in fact, some type of performance or action by the host country. As will be seen in the following sections, this key design feature of performance disbursement is central to information planning in policy reform programs.

At present, performance disbursement designs do not fit neatly within AID's standard modes of assistance. For example, AID typically uses cash transfers to alleviate balance of payments problems. Performance disbursement is a type of cash transfer, but it broadens the objectives of cash transfers to areas of economic assistance beyond the alleviation of balance of payments problems. Furthermore, performance disbursement can be based on local currency, foreign exchange, or a combination of the two. Similarly, performance disbursement can be funded

using Development Assistance funds, the Economic Support Fund, other special program funds, or a combination of sources. Finally, performance disbursement can be employed for both projects or sector programs.

AID uses other modes of assistance which employ conditionality for the release of funds, such as Commodity Import Programs and PL 480 programs. Performance disbursement offers a major advantage over these other funding arrangements. Unlike Commodity Import Programs and PL 480, performance disbursement funding does not have to be tied to specific purposes or commodities. This gives AID and the host country additional flexibility in the use of program funding. Although the specific use of program funds is established during the design stage, the potential range of activities for which funds could be used is quite broad. In short, because large multiyear cash transfers can be targeted for purposes of high priority to the host country, performance disbursement can create a strong incentive to make policy and institutional changes which might otherwise be unacceptable.

Performance disbursement can also be viewed as a variant of fixed amount reimbursement that ties funding to less tangible outputs (i.e., policy and institutional reform). The fixed amount reimbursement model typically links funding to "bricks and mortar" outputs; performance disbursement operates in an analogous fashion, but the outputs to which funding is tied are the enactment of reform measures. It is possible to conceive of a program which combines both fixed amount reimbursement and performance disbursement. For example, fixed amount reimbursement sometimes seems to encourage the host country to complete construction with little if any regard for the organizational and institutional underpinnings required for sustainability (e.g., construction of irrigation canals while ignoring the organization of farmers into water users associations). To correct for the overemphasis on physical outputs, performance disbursement could be used to address the organizational requirements of development projects. Disbursement would then be contingent on progress in both areas -- physical and organizational.

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2 For an initial statement of the performance disbursement concept, see Herbert Morris' memorandum for senior AID administrators, "Performance Disbursement: Birds-Eye View," June 14, 1983. For a more detailed discussion of the strengths and weaknesses of performance disbursement designs, see Chris Hermann, "Implementing Policy Dialogue via Performance Disbursement: Examples from the Philippines, Bangladesh, and Niger," AID Occasional Paper No. 1, 1985.

3. FOUR BASIC CATEGORIES OF INFORMATION FOR POLICY REFORM PROGRAMS

3.1 Compliance Data

Summary: Program management requires data which demonstrate that the host country has met the conditions for disbursement. A broad range of data can be used for this purpose. Qualitative data describing changes in organizations and processes are often sufficient. Quantitative measures, such as budgetary data or operational statistics, can also be used. A checklist providing policy reforms supported by the program, the date when action was taken, and evidence of actual implementation is a simple means for monitoring compliance. For the most part, the types of information required can be identified from the program agreement.

Demonstrating that conditions for disbursement have been met is central to the implementation of policy reform programs. A useful means for determining what types of data will be needed is to develop an implementation chart for the program. Tables 1 and 2 are based on Mali's Economic Policy Reform Program (EPRP/Mali).

Table 1. EPRP/Mali Performance Disbursement Criteria

Conditions Precedent (CP)

- Program agreement acknowledged by the Government of the Republic of Mali as valid and binding
- Government of Mali representatives designated
- Program coordination unit offices established in the Ministry of Finance
- Program coordination unit staffed: two Malians and one technical adviser
- Complementary program agreement signed by the Government of Mali
- U.S. bank account opened for deposit of EPRP disbursements
- Plan developed for privatization of parastatals

Component 1: Tax Reform (C1)

Tranche 1 (T1) (C1T1)

- Approve the new commercial code (Council of Ministers)

- Develop 3-year action plan for tax and customs reform, and Year 1 implementation plan

Tranche 2 (T2) (C1T2)

- Enact new commercial code
- Liberalize pricing and external trade controls
- Assess results of previous tax reform actions and develop Year 2 implementation plan

Tranche 3 (T3) (C1T3)

- Assess results of previous tax reform actions and develop Year 3 implementation plan

Component 2: Budget and Administrative Reform (C2)

Tranche 1 (C2T1)

- Meet all conditions of C1T1
- Computerize payroll and use system to pay employees
- Implement new budget accounting system for receipts and expenditures
- Implement Privatization Program
- Develop plans and procedures for Early Retirement Program
- Establish disbursement procedures for EPRP financing, including local currency fund needed for Early Retirement Program
- Set annual civil service hiring ceiling to reduce rate of growth (i.e., 1,100 new hires only)
- Set level for nonwage expenditures acceptable to AID (e.g., \$1.5 million in the coming year, raising the nonwage-to-wage ratio)

Tranche 2 (C2T2)

- Assess implementation progress of C2T1 reforms
- Provide data on expenditures incurred for Severance Pay Pension Guarantee Fund, Credit Guarantee Fund, and Feasibility Study
- Adhere to C2T1 civil service hiring ceiling and set new

annual civil service hiring ceiling to reduce rate of growth (i.e., 800 new hires)

- Adhere to C2T1 nonwage expenditures and set new target for nonwage expenditures (i.e., \$1.5 million)

Table 2. Illustrative Implementation Schedule

Conditions To Be Met	CP	C1T1	C2T1	C1T2	C2T2	C1T3	PACDa
Timing	12/85	12/85	6/86	12/86	12/86	12/87	12/88
Funding (\$M)	0.8	2.56	2.7	3.55	4.785	2.02	
Joint Reviews			12/86		12/87		

PACD means Project Authorization Completion Date.

The program management unit is typically responsible for facilitating and monitoring actions required for meeting the conditions for disbursement. Simply listing the conditions associated with each tranche makes it easier to identify the types of information needed to demonstrate host country compliance.

The ongoing monitoring activities of the program management unit should produce much of the compliance data. Implicit in many of the conditions for disbursement in policy reform programs are a number of subactivities. For example, the Government of Mali offices involved with EPRP reform measures must first understand the objectives and importance of the proposed changes. This might require time to discuss and review the actions that will be required and the changes in operating procedures that have to be made. Work plans might have to be developed, and these plans might need approval at higher management levels. Implementing the plan might require staff training in new operating procedures (e.g., in EPRP/Mali, how to use the new budget accounting system). Moreover, certain reforms will encompass a number of separate changes. For example, in EPRP/Mali, tax reform measures will affect the payroll tax, customs tariffs, deductions for capital investment, and business income tax and will require establishment of a tax prepayment system. In short, implementation monitoring will focus largely on the progress being made in completing the various subactivities leading to compliance with disbursement

conditions.

Disaggregating disbursement conditions into their constituent actions provides the program management unit with a set of benchmarks for tracking implementation progress. These benchmarks also serve as short-term objectives for the office(s) affected by the reform measures. The program management unit should document the implementation process in program files, describing actions taken and actions pending for each upcoming disbursement condition. Over time, these reports will provide data on host country compliance for the annual program reviews. Program files will also be an important source of information for mid-term and final evaluations.

3.2 Institutional Improvement: Intermediate Effects

Summary: Policy reforms lead to or require changes and improvements in the performance of public sector institutions. Data which track these changes will be needed as reform measures are enacted. Data collection should generally be limited to readily observable changes in specific institutions which result directly from the reforms (i.e., intermediate effects), rather than more global measures of public sector efficiency. Operational data will be very useful in this regard.

3.2.1 Focus of Data Collection on Improved Performance of Government Agencies Affected by the Policy Reforms

Many policy reform programs support measures to improve the overall performance of the public sector. To achieve this improvement, reform activities are targeted on specific government agencies (ministry offices and parastatals) to upgrade their efficiency and effectiveness. Typically, these reforms affect budgetary and administrative regulations and procedures. Where enactment of institutional reform measures is stipulated as a condition for disbursement, compliance data (discussed in Section 3.1) are used to monitor implementation of the changes. In addition to enactment, the effects of these reforms on public sector institutions should also be assessed.

In principle, improvements in public sector performance resulting from policy reforms ought to be measurable, especially when the reforms involve major changes in operations. In practice, however, direct measurement of improvements resulting from policy reforms is quite difficult. An example from EPRP/Mali illustrates the problem.

EPRP/Mali will support an increase in nonwage expenditures for various materials, ranging from paper and pencils to fuel for Government vehicles. The reason for increasing these expenditures is that the performance of Government workers is

impaired by the lack of necessary materials and supplies. Simply increasing the supply of these materials should improve the efficiency of civil servants and, ultimately, Government operations.

However, obtaining empirical evidence which links nonwage expenditures to broad patterns of public sector performance would be a difficult, if not impossible, evaluation task. First, the time needed for performance improvements to occur will probably exceed the life of the program. Second, the effects of nonwage expenditures would have to be isolated from other factors which both positively and negatively influence public sector performance, such as institution-building projects and other development activities which affect Government operations. Third, the causal link between nonwage expenditures and public sector improvements is indirect; that is, the effects are mediated by intervening management systems (e.g., staffing levels, decisions concerning the use of funds for nonwage expenditures). Determining the extent to which these intervening factors distort or deflect the effects of policy reforms on public sector performance could be quite speculative and thus could lead to highly unreliable conclusions.

Similar problems will be encountered with other types of institutional reforms when trying to associate the reforms with overall improvements in public sector performance. In general, this type of association between specific reforms and broad public sector changes will not be a practical approach for meeting the information requirements of policy reform programs. In many programs, the strongest argument that could be made is that policy reforms are one of several factors contributing to improvements in the public sector.

An alternative approach for program monitoring and evaluation is to focus on the short-term, intermediate effects of reforms on specific government institutions. In most cases, institutional reform measures initiate or advance a long-term process of improvement. Typically, individual reforms are necessary but not sufficient to cause significant or measurable improvements throughout the public sector (at least not in the time frame of the program). Theoretically, public sector performance will improve over time as additional institutional reforms are made (i.e., there should be a cumulative effect on performance). In the interim, program monitoring and evaluation should concentrate on the intermediate effects of reform measures, that is, on changes within the government institutions affected by the reforms. Intermediate effects can result directly from the reforms, when changes in procedures and operations are specified, or indirectly, through the operational changes necessary to enact the reform (but not explicitly stated as a condition for disbursement).

In EPRP/Mali, for example, monitoring the intermediate effects of increased nonwage expenditures consists primarily of determining whether these expenditures have increased relative to wage expenditures. At the very least, this should provide

insight into the ability of the Ministry of Finance to make changes in budget allocations as stipulated by the reform program. To some extent, the beneficial effects of increased supplies can be inferred from how these funds were used.

3.2.2 Additional Examples of Intermediate Effects on Public Institutions

The Agriculture Sector Development Grant in Niger (ASDG/Niger) provides several good examples of intermediate effects on public sector institutions resulting from policy reforms. A major reform supported by ASDG/Niger is the reduction of Government subsidies on agricultural inputs. Prior to the program, the Government of Niger's subsidy system had the effect of limiting the supply of agricultural inputs. The Government allocated a fixed amount for subsidies and set the final cost of inputs to the buyer. Because the Government held a monopoly on the supply of major inputs, the total amount of inputs available to farmers was determined not by market demand, but by official input prices and the amount of funds available for subsidies. It was estimated that actual demand for inputs, even at a higher cost, exceeded the supply under this system. By lowering subsidy levels and encouraging supply of inputs by cooperatives and private dealers, costs to the Government should decrease while the supply of inputs should approach the demand level.

ASDG/Niger reforms which reduce input subsidies, therefore, will entail changes in the Government's intervention in the agriculture sector and in the operations of public sector institutions involved with input supply. Specifically, the parastatal which previously controlled input supply will be reorganized as a cooperative that will have to compete with private sector suppliers. This change constitutes an important intermediate effect of the program and will be monitored closely. Similarly, changes in the process by which Government subsidies and prices for inputs are set (e.g., the extent to which official prices are influenced by private sector market prices) and cost savings to the Government as its subsidy program decreases are also indicators of intermediate effects of ASDG/Niger.

Another reform supported by ASDG/Niger is streamlining the licensing for cross-border trade. Simplifying the licensing process and making license fees commensurate with the value of the transaction should encourage more traders to purchase licenses. Easing cross-border trade regulations should also increase the volume of imports and exports. An intermediate institutional effect of these reforms will be improved performance of offices issuing licenses. Basic operational data should be available from the records of these offices, such as the number of licenses issued, their cost relative to the value of the commodity traded, and the number of licenses purchased by category (size) of operations. An increased number of licenses issued, for example, indicates that the output of the office has increased. Additional revenue generated by licensing would also

constitute an improvement due to policy reforms. The distribution of licenses by type or size of transaction will indicate whether the new system is servicing the range of traders equitably. In addition to operational records, interviews with staff working in licensing offices could identify problems with the new system, which program managers should resolve.

A third example of intermediate effects concerns the reform of Niger's grain marketing parastatal -- Office des Produits Viveriers du Niger (OPVN). ASDG/Niger reforms include a more strategic role for OPVN in the sector, using its supplies to moderate cereal price fluctuations. The size of OPVN will be reduced (e.g., fewer grain outlets and a smaller grain reserve). The procedure for Government grain purchasing will also be changed to a tender and bid system. Clearly, these reform measures will have a direct effect on OPVN operations, which should contribute to overall improvements in public sector performance. Both quantitative and qualitative data will be collected to assess these improvements.

EPRP/Mali also provides examples of intermediate institutional effects. The program supports a package of tax reform measures which should lead to an expanded tax base and more effective operation of its revenue offices. Intermediate effects of the program should be evident in an increasing number of tax returns and a more equitable distribution of tax payments (i.e., the distribution of returns among individuals, corporations, and economic interest groups). Computerization of tax records should also improve performance of the Internal Revenue also improve the performance of the Internal Revenue Directorate. Indicators of improvement would include more timely reporting of revenues, better access to tax data, and more accurate projections of next year's revenues. Similar operational improvements are expected in the collections service and the investigation unit. For example, the number of cases investigated and completed would reflect performance improvements. Comparable changes in the operations of the Ministry of Finance pertaining to the budgetary process and in the civil service concerning personnel management will also provide evidence of intermediate effects of the policy reform program.

3.3 Implementation Progress

Summary: Joint review committees are established to assess implementation progress and the short-term effects of reform measures. The committees convene prior to the scheduled release of program funds to determine whether conditions for disbursement have been met. Compliance data and institutional performance data are important for these reviews. An additional consideration in assessing progress is the current economic and political context in which the program is being implemented. Changes in the program environment can significantly affect implementation, requiring mid-course adjustments to the program.

Some policy reform programs establish special subprograms, such as EPRP/Mali's Early Retirement Program, which support policy objectives. The performance of these special subprograms should also be assessed by the joint review committees.

The management of policy reform programs includes a joint review committee, which convenes periodically during the implementation of the program to assess progress. Typically, the joint review committee meets prior to disbursement of program funds. The joint committee, consisting of host country USAID representatives, reviews actions taken to institute reform measures to determine whether conditions for disbursement of the next tranche have been met. The joint reviews are also an opportunity to examine the implementation process, action plans for the next round of reforms, and contextual factors affecting the program. Clearly, adequate information is central to performing these management functions.

The program management unit (usually composed of appointed host country staff working with long-term advisers) is responsible for providing data for the joint reviews. Their principal data source is the program implementation files. Summaries based on file records supported by pertinent quantitative data (e.g., operational and budget records) which demonstrate compliance or noncompliance with disbursement conditions should be submitted for committee reviews. Ideally, required actions will have been taken by the host country, and convincing evidence demonstrating compliance will be available. Thus, the joint committee should be able to reach agreement quickly on release of the next tranche. However, in some instances the question of compliance is not so easily resolved, perhaps because of differing interpretations of what constitutes compliance or because reforms have been only partially enacted. When compliance is questionable, the information provided by the program management unit is especially important. At the very least, this information serves as a common point for discussions between host country and USAID. If the program management unit is unable to offer convincing evidence that required reforms have been enacted, that, in itself, questions whether progress is sufficient for release of the next tranche.

Both external and internal factors can affect implementation of policy reform programs. Internal causes of implementation delays generally reflect management problems. Internal causes of delay can include the host country government offices which must enact the reforms, the capability of the program management unit to facilitate those actions, and AID's own management systems (e.g., contracting regulations or commodity procurement procedures). As in any other project, careful monitoring of the program is needed to identify what is causing implementation delays. The joint reviews are a logical point at which changes in personnel or management systems could be made to expedite implementation.

The economic and political context in which the program is

being implemented should be a key concern for the joint review committee. A fundamental assumption of these programs is that the host country has the ability and resolve to enact policy reforms. This assumption is typically based on conditions as they existed when the program was designed. However, changes in external or contextual factors can significantly affect program implementation either positively or negatively. EPRP/Mali provides an example of both effects.

The price for cotton on the international market declined just as EPRP/Mali started implementation, and prices are expected to remain at depressed levels for at least several years. This will seriously reduce Mali's export earnings. As a result, Government revenues will decrease, creating the possibility that Government priorities will change. If this happens, EPRP/Mali's policy reform objectives might not be achieved within the time frame originally envisioned. On the one hand, reduced revenues might make Government of Mali counterpart funding unavailable for certain components of EPRP (e.g., for the Early Retirement Program). On the other hand, further economic austerities might provide an added incentive for the Government to accelerate enactment of reforms to expedite the disbursement of EPRP funds.

Economic conditions can also interact with political issues. For example, deteriorating economic conditions could make a reduction in the rate of civil service hiring (an EPRP/Mali policy reform) politically unacceptable on the grounds that this could lead to social unrest among the educated young who had expected Government employment. Alternatively, in light of declining revenues and a growing inability to meet recurrent costs, the Government of Mali might have to radically curtail hiring beyond the levels encouraged by EPRP. Failure to reduce expenditures would only exacerbate Mali's current fiscal crisis. The appearance of ineptness in managing the country's financial affairs could have equally serious political consequences for the Government. In short, the interaction of economic and political factors could affect EPRP in a number of ways.

Similar scenarios are likely to affect other policy reform programs. Therefore, an important function of joint reviews is to periodically reassess the economic and political context of the program. Two basic questions should be addressed. First, if the host country has not fully met the conditions for disbursement, the joint review committee should determine to what extent this has resulted from uncontrollable or unpredictable external factors. Then the committee must decide whether actions taken thus far are sufficient for disbursement given the new context in which the program is now operating. Second, the committee needs to determine whether modifications in future disbursement conditions are required, which might require weakening some conditions or postponing others.

Macroeconomic data, national accounts data, and sector-specific data should be sufficient for making this assessment. Additional data pertaining to contextual factors should be available from the World Bank, the International

Monetary Fund, or U.N. agencies. The USAID program economist should be able to provide much of the necessary information. (In fact, the USAID program economist should be on the joint review committee.) If it is determined that contextual factors are impeding the program and modifications in conditions are needed to continue implementation, a justification for this decision, supported by available data, will probably be required for AID/Washington.

An additional activity for the program management unit and the joint review committees is to monitor and evaluate the performance of special subprograms established to advance policy reform objectives. A good example is the Early Retirement Program to be established as part of EPRP/Mali. This program is a pilot effort to test whether civil servants can be induced to retire voluntarily, thereby cutting Government expenditures, an EPRP policy objective. If successful, the program could have considerable utility for the Government of Mali by reducing the number of Government employees while minimizing the adverse affects of forced reductions in staff. Because the program could be expanded after EPRP is finished, it is important to evaluate its performance.

The EPRP management unit will monitor the program using operational data, such as the number of applicants, the characteristics of the participants, and the types of businesses they started after retirement. The data should be provided to the joint review committee as they become available. A followup survey based on a sample of participants will also be conducted to evaluate the program. For example, it would be useful to compare the participants' initial employment plans (cited in their applications to the program) to their actual employment after retirement. If the program is to be expanded, it will be important to determine whether the compensation and assistance provided by EPRP were sufficient. Given that compensation is determined by the participants' civil service grade ranking, the evaluation should examine differences in success rates among participants to determine whether further changes to the program are needed.

3.4 Impact of Policy Reforms and Private Sector Response

Summary: Many policy reform programs are designed to reduce government intervention in market operations, decrease the costs of public sector operations while increasing their efficiency, and stimulate private sector development. Program implementation monitoring should generate information concerning the first two objectives. Additional information will be needed on the private sector's response to reform measures. In many cases, this will require special evaluation studies during the latter stages of the program. The studies should examine whether the business community has reacted to the reform program as expected and if not, why; and whether private sector development is

likely to result from the reform measures as enacted. Another important use of the studies is to provide information for planning subsequent policy reform or private sector development activities.

A common objective of AID's policy reform programs is to establish conditions conducive to more rapid economic growth. Typically, this involves reducing the role of government (or at least making it more efficient) and encouraging private sector development. The effects of reform measures on the private sector, or the private sector's response to the reforms, should therefore be a key issue for program evaluations. In addition to the preceding types of data, this will require collecting data on the effects of reforms on the private sector.

For many cases, assessment of the impact of reform measures on the private sector (or the private sector's response to reforms) will be limited to relatively immediate effects of the program. (See Section 4 for a more detailed discussion of the limitations of evaluating the impact of policy reform.) Special studies will be needed to generate this type of information. The studies might require a survey to collect new data or a reanalysis of data generated for other monitoring and evaluation purposes. Proper timing of the studies will be very important. Reform measures must have been in place long enough to have had an effect. However, the studies should be completed prior to program completion to inform managers about achievement of overall objectives.

Although conducting yet more studies appears burdensome, examining the degree to which broad program objectives have been achieved serves two important purposes. First, the evaluation studies should capture general "lessons learned" about the program for the Agency. Second, the ongoing reform program provides a mechanism for funding studies which can produce information useful for the design of follow-on programs.

Special evaluation studies do not have to be elaborate or costly; rather, the scope of the study can be adjusted to fit the budget, time frame, and other constraints of the program. To clarify the types of studies which might be required by a policy reform program, several examples proposed for ASDG/Niger and EPRP/Mali to assess private sector response to reform measures are briefly described.

3.4.1 ASDG/Niger

The overall objective of ASDG/Niger is to reduce inefficiencies in the agriculture sector resulting from unnecessary Government controls and poorly managed agricultural parastatals. Policy reforms also will promote free market operations and development of the private sector. It is assumed that as Government controls are reduced or eliminated, the private sector will expand by taking over activities the Government previously performed or by engaging in activities from which they had been

excluded. By increasing the supply of agricultural inputs and reducing Government control over cereal marketing, the reforms are expected to ultimately benefit small farmers.

Without being too pessimistic, it is reasonable to anticipate some difference between what is expected to happen in theory and what actually happens in practice. Moreover, there could be unpredicted adverse effects of the reforms, particularly for small farmers. At the very least, information about the key assumptions concerning (1) the business community's response and (2) the effects of reforms on small farmers should be obtained. The information plan for ASDG/Niger recommends that two small scale studies be conducted for this purpose.

As Government subsidies on agricultural inputs are reduced and private dealers supply a greater proportion of inputs to farmers, the price of delivered inputs will increase. If these increases are too large, they could lead to a reduction in the use of agricultural inputs. This will probably not occur immediately, but after two or three subsidy reductions the effects of price increases on input use should be assessed. Initially, ASDG program management staff should conduct informal surveys at local markets with input suppliers and farmers to determine whether price increases have been significant and whether the increases have become a disincentive to input use. Depending on the results of these informal interviews, a more systematic study of input supply businesses might be required to determine whether the private sector responded to policy reforms as anticipated, whether there is sufficient competition in the input supply market, and what effect subsidy reductions and price increases have had on input use by small farmers.

3.4.2 EPRP/Mali

The information plan for EPRP/Mali recommends two studies to assess the business community's response to the enactment of a new commercial code and tax reform measures.

The new commercial code should simplify business registration by reducing costs and time requirements. Previous restrictions on establishing new businesses will be removed (e.g., former employees are no longer barred from starting businesses identical to their former employer's). Lower tax rates might also encourage the establishment of new businesses. Given EPRP's objective of stimulating private sector development, a study of new businesses should be conducted.

The study should examine the motivation of new proprietors for establishing their businesses to determine to what extent EPRP policy reforms were a contributing factor. If the reform measures did not influence their decisions, this might indicate the need for a more concerted effort by the Government to explain the new commercial code or to consider additional reform measures. The study would also verify whether the registration system has been implemented as planned under the new commercial

code. A sample of new businesses could be drawn from registration records. Data could be collected on knowledge about EPRP reforms, size of businesses, labor requirements, capital investment, credit availability, and other pertinent factors affecting business operations and the potential for expansion. In addition to assessing the effectiveness of policy reforms in stimulating private sector development, the study should also provide useful information about additional interventions that could be made to further encourage the establishment of new businesses.

EPRP will also support a tax reform package. The tax system had been confiscatory, and, consequently, many people avoided paying taxes. The reforms will restructure the system so that the tax burden is borne more equitably across the population. It is expected that compliance with tax laws will increase as reforms are enacted. Combined with the new commercial code, EPRP reforms could have an important effect on the private sector. On the other hand, the business community might not trust the Mali Governments' commitment to maintaining the reforms. (In fact, there is a precedent for this mistrust.) Consequently, business proprietors might be reluctant to act solely on the basis of the reforms. To gain additional insight into the effectiveness of the reform measures, a study of private sector response and expectations concerning tax reforms is included in EPRP's evaluation plan.

The study would be based on a representative sample of businesses located in the major towns of Mali. The study would focus on communication between the Government and the business community and the response of the latter to the reforms. Clearly, the business community must understand the reforms if they are to respond accordingly. Therefore, the Government will mount a mass media campaign to explain EPRP reforms. The study should examine the success of this campaign; that is, do the business operators understand the reforms and the actions that they have taken in response? Additional data could be collected on any changes in their current operations that have been made since the enactment of EPRP reforms (e.g., expansion into new areas, additional employment, increased capital investment) and other factors affecting business expansion.

3.5 Data Collection Methods

The examples provided by EPRP/Mali and ASDG/Niger reflect the range of data collection methods that is suitable for monitoring and evaluating policy reform programs. In general, there is very little difference between the methods used for reform programs and standard development projects. As the Mali and Niger programs indicate, a wide range of research methods is possible. Similarly, the strategy guiding information planning for policy reform programs is to establish basic data collection systems that cover critical information requirements and to use special studies for evaluation and for gaining additional insight into problems and issues as they arise during implementation.

For compliance data, observational and other types of qualitative methods will be sufficient. Where possible, quantitative data, such as budgets or operational statistics, should also be used to augment descriptive information. The collection of such data should be within the capability of a program management unit and not require outside technical assistance.

The same types of data and methods used for monitoring and evaluation in institution-building projects will be applicable to policy reform programs regarding effects of reforms on government institutions. Again, both quantitative and qualitative data are needed to assess improvements in institutional performance. Improvements pertaining to institutional processes and procedures can be monitored largely by observational or descriptive information. For example, descriptions of changes in decision-making processes, greater use of empirical data (e.g., study findings, recent statistics), reorganization of decision-making bodies, shorter but more effective meetings, and better resource allocation or investment decisions are possible indicators of effects resulting from reform measures.

In addition to observation and informal interviewing, operational records can also provide useful data concerning institutional performance. For example, the number of cases processed or licenses issued and similar counts of services provided are often recorded by the offices affected by the reform measures. Much can be inferred from such operational statistics when combined with informal interviews.

In some cases, small-scale studies might be required for mid-term or final program evaluations to assess the results of institutional reforms or to evaluate special programs established in conjunction with reform measures. The special evaluation study of the Early Retirement Program in EPRP/Mali is a good example. Similar low-cost methods could be used for ASDG/Niger's study of agricultural input suppliers, and the potential effects of price increases on the use of inputs by small farmers could be determined largely through informal interviews and rapid reconnaissance techniques. In general, studies based on informal interviewing and other low-cost methods can be conducted for \$10,000 to \$20,000, depending on the amount of outside technical assistance required.

The new enterprise study proposed for EPRP/Mali illustrates a somewhat more complicated research effort because it requires substantive understanding of private sector development in the host country in addition to methodological skills. A study of that type could cost \$25,000 or more.

Substantial methodological skills would be required to properly design and carry out the study of private sector response to EPRP/Mali's policy reforms, specifically the new tax system and the new commercial code. A research methodologist working with a specialist in private sector development might be

needed. A study based on statistically representative data covering the major urban areas of the country could easily cost \$100,000 or more.

What should be recognized, however, is that the scope of these studies could be expanded or reduced to accommodate the special information requirements of the program, funding and staffing constraints, and time limitations. For example, the private sector study for EPRP could be simplified by limiting the sample to the Bamako area and to businesses with gross profits above a certain level. Similarly, if exploratory work revealed that input use had decreased substantially following reductions in subsidies, ASDG/Niger might need to expand its study of the problem to obtain a more accurate assessment of the situation. In short, the studies needed by policy reform programs are not restricted to any one size or scale; rather, they can be adjusted to the needs and resources of program management.

4. DELIMITING THE SCOPE OF MONITORING AND EVALUATION IN POLICY REFORM PROGRAMS

Summary: Information planning for policy reform programs must determine what the monitoring and evaluation responsibilities of the program include and exclude. Management's desire for information has to be accommodated to the resources of the program and other constraints to data collection and analysis. Several characteristics of policy reform programs help to delimit the program's information requirements. First, the conditions for disbursement establish the basic data needs for monitoring program implementation. Second, the degree to which program funds are directed to specific uses influences the scope of program information requirements. Third, the degree to which policy reforms can be linked empirically to macroeconomic and sectoral conditions sets parameters on program evaluations.

Designing the information component of policy reform programs is much like planning a monitoring and evaluation system for any other development project and involves many of the same considerations. This includes determining the information requirements for program management, the types of data required, the quality of available data, appropriate data collection methods, the frequency of data collection, the level of statistical representativeness and coverage for quantitative data, technical skills and data management requirements, and reporting schedules and formats. Policy reform programs also confront a standard problem: management's desire for information often does not mesh with the reality of what can actually be obtained given available funding, time, and human resources. Planning an effective information system, therefore, requires limiting management's "wish list" for information to a parsimonious and

workable inventory that still satisfies management's needs to the largest extent possible.

However, policy reform programs differ from standard development projects in the nature of their outputs and overall objectives and in how they are implemented. Many of the outputs and objectives of policy reform programs are less tangible than those of standard projects. For example, a common reform objective is to establish preconditions believed necessary for more rapid economic growth. These preconditions may certainly be legitimate and important development goals, but they do not readily lend themselves to empirical verification. On the other hand, the conditions for disbursement define a significant proportion of data essential for sound program management. All of the compliance data and much of the institutional performance data can be identified from the program's disbursement conditions. In short, the special characteristics of policy reform programs set parameters for determining which data are essential for the program and which are not.

4.1 Specifying the Use of Funds

An important area for consideration in information planning is the point at which the host country has discretionary control over the use of funds provided by the policy reform program. The transfer of ownership of funds from the U.S. Government to the recipient Government sets a boundary on AID's responsibility for program monitoring and evaluation and, hence, the information requirements for the reform program. The stipulation of specific uses of funds in the program agreement determines when the transfer in ownership occurs and, consequently, the maximum extent of AID's monitoring and evaluation responsibilities. This can range from very little or no targeting of funds to virtual "projectizing" of funds. In general, program information requirements will increase as the use of funds becomes more specific. ASDG/Niger and EPRP/Mali funding arrangements can be used to illustrate the point.

In EPRP/Mali, tax reforms will reduce the tax rates causing an initial shortfall of revenues for the Government. In the coming years, as improvements in tax administration occur and as the tax base expands, total revenues are expected to surpass previous levels. In the interim, EPRP disbursements will compensate for the temporary shortfall in revenues. Exactly how EPRP funds are to be used (i.e., for what particular government functions) is not stipulated in the program agreement. In this case, the Government of Mali has complete ownership of funds once they are released in accordance with program agreements. This virtually eliminates AID's responsibilities to monitor and evaluate the development-related use of funds provided for this component of the program. Instead, program management can direct its attention to issues associated with the tax reform, such as the private sector's response to the new tax system.

ASDG/Niger has a more complicated funding arrangement: the program contributes directly to Niger's development budget by

providing the Government of Niger with the counterpart funds it would otherwise lack for ongoing development projects. The program agreement stipulates that ASDG funds will be used by the Government of Niger for this purpose. In this case, transfer of ownership is less clear-cut than in EPRP/Mali. In accordance with the terms of the program agreement, a special account was established by the Government of Niger into which ASDG funds are deposited. The Government of Niger's use of funds can be audited and monitored to ensure that program agreements have been met. But the information requirements of the program extend further. For example, the broader objective of policy reform programs is to improve decision-making. That is, economically sound policy should guide agricultural investment decisions. Therefore, ASDG evaluations should examine the decision-making process guiding the use of these funds provided by the program. Another major objective of ASDG is to support the implementation of important agricultural projects by providing the Government of Niger with the resources for counterpart funding. Consequently, ASDG's evaluations should assess the utility of the program for those projects which received ASDG funding. Note that because of ASDG's more complicated transfer of the ownership of funds, program information requirements include, to a limited extent, the actual use of those funds.

In short, one rule of thumb for delimiting the range of program information requirements is to identify where the transfer in ownership of funds actually occurs. This will be determined by the degree to which program funds are restricted to specific uses in the program agreement.

4.2 Linkage Between Policy Reform and Macroeconomic Conditions

Policy reform programs are premised on an assumed causal relationship between reform measures and improvement in sectoral and macroeconomic conditions. ASDG/Niger provides a good example:

To the extent that the use of improved inputs is economic for Niger, then reducing subsidies and raising input prices will actually increase agricultural production and aggregate output and raise overall farmer incomes in the present economic environment. Obviously, reducing the average level of subsidy should have top priority if the Government of Niger truly wants to increase food production and improve the lives of the farmers. {3}

In other words, policy reforms (e. g., reduced subsidies) are expected to contribute to improvements in macroeconomic conditions (e. g., increased aggregate output) and to improvements in the socioeconomic well-being of small farmers. In principle, this casual relationship ought to be empirically verifiable. In practice, however, demonstrating this relationship is far more complicated than it appears. First, the

connection between policy reforms and production increases is usually not direct; rather, it is mediated by various intervening factors, which complicates the relationship between the reform and an observed change. In many cases, policy reforms will, at best, establish the preconditions necessary for more rapid economic development, expanded aggregate production, and the like. More than policy reform will be needed to achieve higher rates of growth.

Second, even if policy reforms contributed directly to sectoral development, it would be virtually impossible to isolate the discrete effects of policy reforms on this growth. Any number of other factors contribute coterminously to the same observed change, such as other development projects or changes in international markets. Unless the separate effects of these factors can be estimated, it is not possible to demonstrate that policy reforms actually caused the change rather than some other contributing factor (s). To determine the relative contribution of these factors to the observed change would require data which the vast majority of developing countries lack and which would be too expensive to obtain.

Third, the time required for the effects of policy changes to emerge further complicates the matter. In the interim, counteracting forces can offset the gains made by the reforms, leading to the wrong conclusion that the policy changes were inconsequential.

These problems pose a minor dilemma for planning evaluations for policy reform programs. On the one hand, attempts to demonstrate empirically the effects of policy reforms on macro-economic, or even sectoral, conditions will encounter insurmountable methodological problems or will entail costs for data collection so excessive that this strategy becomes impractical. On the other hand, the program is premised on precisely this type of relationship, so it cannot be ignored entirely.

One solution is to use the same line of reasoning followed in the initial development of the program. Using ASDG as an example, the policy changes the program supports were justified on the basis of prevailing economic theory and widely held assumptions about the benefits of private sector development. The same argument should also guide decisions concerning which aspects of ASDG should be evaluated. For example, program documentation asserted that greater economic efficiency in the sector would be achieved by reducing Government control over the supply of agricultural inputs and cereals marketing. As a result, agricultural production would increase, and ultimately the small farmer would benefit. Similarly, the savings resulting from restructuring agricultural parastatals could be used for more economically productive investments in the sector. These and other related benefits are expected to occur if the Government of Niger makes the appropriate policy changes.

It would be logically inconsistent to decide later, after the policy reforms are enacted, that these benefits have to be demonstrated in program evaluations. Rather, the same hypotheses

about the linkage between policy and sector growth which were adequate to justify ASDG should still be operative in program evaluations; that is, the principal focus should be on the enactment of reform measures and their short-term effects, as described in Section 3. Evaluations should, therefore, focus on program performance -- for example, implementation of new policies effective enactment of reforms, related improvements in the performance of public sector institutions, and the response of the private sector. It is the achievement of these conditions which measures program success. Following the same theory and logic which underlie the program, the best that the evaluation can do is to argue that the success (or failure) in establishing these conditions determines the likelihood of facilitating macroeconomic or sectoral improvements.

In short, the problem of linkage between policy reform and macroeconomic or sectoral conditions offers another basis for delimiting the scope of information requirements for reform programs.

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3 Agriculture Sector Development Grant, Program Assistance Approval Document, Annex H, p.14.

5. STAFFING AND FUNDING

An important purpose of information planning is ensuring that sufficient funds are included in the overall program budget to cover the costs of staff and data-related activities for monitoring and evaluation. Exact costs will vary according to the size and complexity of the reform program, studies required for evaluations, and the availability of local research expertise. In general, because of the experimental or untested nature of policy reform programs, funding for monitoring and evaluation should be proportionately larger than for standard development projects and should be included in the program's grant funding.

Typically, a major expense for monitoring and evaluation will be staffing, particularly if expatriate advisers are necessary. For most programs, it will be necessary to have at least one senior staff person with research training and previous experience with monitoring and evaluating development projects. This will usually require a Ph.D. in a development related field of social science pertinent to the content of the policy reform program, language capability, and, preferably, previous work experience in the country or the region. Additional staff for monitoring and evaluation should be selected from among local individuals. In many programs, the host government will assign staff to work with the senior researcher on program monitoring and evaluation. These individuals should have experience with data collection and analysis and preferably should have training to the M.A.-level in a field related to the program. The monitoring and evaluation staff should be located in the program management unit to maximize their utility.

A second major cost will be the number and scale of special studies planned for program evaluations. As suggested in Section 3.5, research methods can be adjusted to meet the funding and staffing constraints of the program. However, critical issues for program evaluation might require a fairly thorough and systematic study, and, in these cases, a significant investment in research might be warranted.